

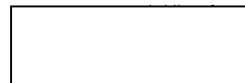
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Directorate of
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Rwanda: Economic Woes Test Regime

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Rwanda: Economic Woes Test Regime

Rwanda's worsening economic performance—aggravated by the plummeting world price for its major export, coffee, and an overvalued currency—has combined with a food emergency to fuel the first serious domestic dissatisfaction with President Habyarimana in his 17-year rule. Burdened with rising unemployment and food shortages, the Rwandan public has grown increasingly intolerant of high-level corruption and presidential indecisiveness in tackling contentious political and economic issues that also have stirred latent ethnic tensions. International lenders are questioning Kigali's commitment to economic reforms and the government's handling of emergency food distribution to alleviate local shortages, which has become a politically charged issue. Persistent economic hardship and public criticism of the regime will increasingly test the President's political skill; failure to stem the erosion of public confidence could tempt the military to step in and seize power.

Domestic Stability Until Recently

Rwanda has remained one of Sub-Saharan Africa's most politically stable countries under the moderate and pro-Western leadership of Habyarimana. Founder of the sole political party, the National Revolutionary Movement for Development, he has faced little opposition since assuming power in a nonviolent coup in 1973. He won a fourth, five-year term running unopposed in a popular referendum in December 1988. Habyarimana, who is also the Minister of Defense, has developed one of the most professional armies in Africa, by upgrading educational opportunities to attract first-rate candidates to the military. some friction exists between the old guard and the younger, better-trained recruits.

Unlike neighboring Burundi, Rwanda has avoided large-scale tribal violence since a revolt in 1959 by the majority Hutu ethnic group—89 percent of the population—toppled the minority Tutsi monarchy.

Habyarimana, a Hutu, has consistently emphasized reconciliation between the two groups. Although Hutus dominate key government and military positions, members of the Tutsi ethnic group wield significant influence in the business community as entrepreneurs in wide-ranging industries such as gasoline distribution, construction, and transportation.

Kigali enjoys good relations with the regimes in neighboring Zaire and Burundi, which also are former Belgian-administered states. Their tri-state Economic Community of the Great Lakes fosters regional economic cooperation and provides a forum for political consultation and security exchanges. Although ethnic conflicts occasionally have spilled across borders, they have not impaired diplomatic relations among the three countries. For example, in mid-1988 the Rwandan Government granted temporary asylum to about 47,000 Burundian Hutus fleeing ethnic violence. Through the good offices of Zaire's President Mobutu, most returned voluntarily to Burundi by the end of 1988; approximately 900 remain in a refugee camp in southern Rwanda. Kigali also enjoys good relations with northern neighbor Uganda, although Rwandan military officers believe that Tutsis who hold prominent positions in the Ugandan Army pose a potential security threat.

But Economic Setbacks . . .

More recently, a drastic decline in the world price for coffee, which accounts for over 80 percent of the country's export earnings, a currency overvalued by about 40 to 50 percent, and population-related food shortages have undermined the relative economic stability that Rwanda enjoyed in the past. Despite previous conservative fiscal management that kept inflation low and attracted domestic and foreign private investment, the government has failed recently to adjust

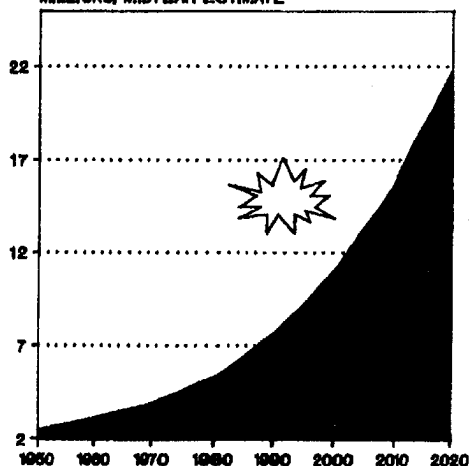
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RWANDA: SELECTED INDICATORS

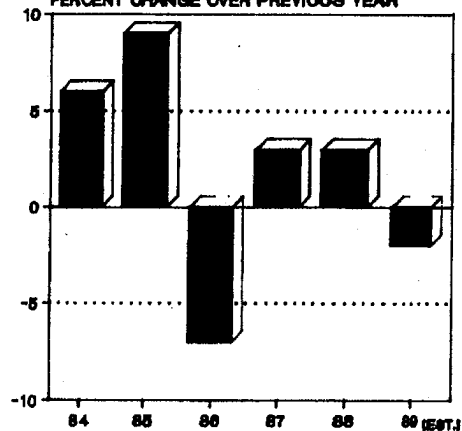
POPULATION

MILLIONS, MIDEAR ESTIMATE



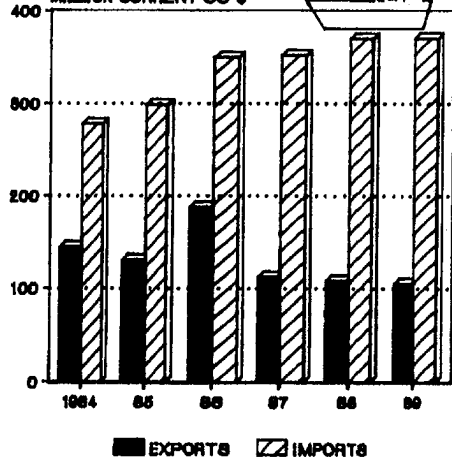
REAL GROSS DOMESTIC PRODUCT, BASE YEAR=1985

PERCENT CHANGE OVER PREVIOUS YEAR



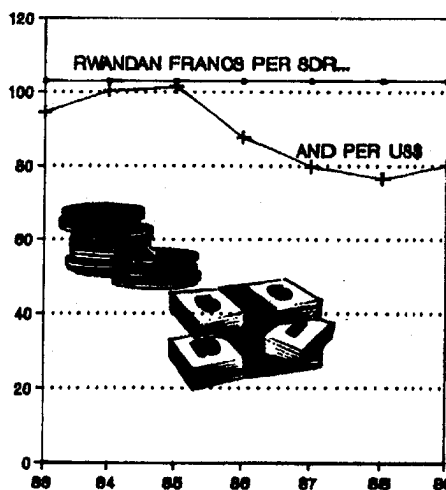
EXPORTS & IMPORTS

MILLION CURRENT US \$



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its policies—especially the official exchange rate—in response to changing conditions. As a result, []

[] Kigali confronts a growing trade deficit and a projected balance of payments gap this year of at least \$80 million. []

Coffee. Poor weather conditions in 1989 contributed to a 30 to 35 percent drop in coffee production. Kigali has been forced to borrow \$100 million since 1987 to finance the state-owned coffee board's stabilization fund that is used to maintain a high producer price despite a lower world market price. In addition, Kigali effectively subsidizes suppliers in neighboring Burundi, Uganda, and Zaire, who, attracted by the highest guaranteed prices in the region, smuggle their produce into Rwanda. []

Industrial Sector. Government maintenance of an overvalued exchange rate—the Rwandan franc converts to SDRs at a fixed rate and has appreciated against the US dollar since 1985—has contributed to the drain on foreign exchange reserves by encouraging imports. Moreover, inefficient local businesses—themselves dependent on imported inputs—have been forced to close because their products have remained more expensive than imports and uncompetitive in regional markets. []

Food Emergency. Rwanda is one of the most densely populated countries in Africa, with 7 million people and a 3.7 percent growth rate; unchecked population growth and limited arable land have amplified the economic strains. Real economic growth has failed to keep pace with rising population. Localized drought conditions last year led to poor harvests, compelling the government in October to acknowledge scattered food shortages and to seek international aid. By December, []

[] about 300 people had died and up to 600,000 risked severe malnutrition. [] adequate domestic food supplies exist, but drought-affected smallholder farmers lack funds to purchase the available food. []

... Are Limiting the Options ...

For the first time, the Rwandan Government is negotiating, albeit reluctantly, with the IMF and World Bank for a structural adjustment program, but the

regime has so far been resisting politically difficult stabilization measures. The government has taken modest steps, including improved collection of back taxes from corporations, severe limitations on import licenses, and elimination of government-furnished housing and cars to all but cabinet-level officials. Although international creditors have lauded these measures, the IMF has recommended currency devaluation by 35 percent and rationalization of the commodity pricing system. []

Habyarimana and his economic advisers are reluctant to implement IMF-recommended reforms fully. A strong devaluation would adversely affect prominent traders and those import-dependent industrialists who have been competitive enough to survive, and lower producer prices would hurt the 600,000 small farmers who grow coffee and contribute 45 percent of GDP. Meanwhile, the government has asked for an immediate contribution of \$50 million to reduce the balance of payments deficit. Although Belgium has taken the lead by offering financial aid—untied to IMF program conditionality—of at least \$36 million for 1990-91, other countries and the World Bank have been hesitant to commit financial assistance until Habyarimana agrees to implement additional IMF reforms. []

... And Fueling Popular Discontent

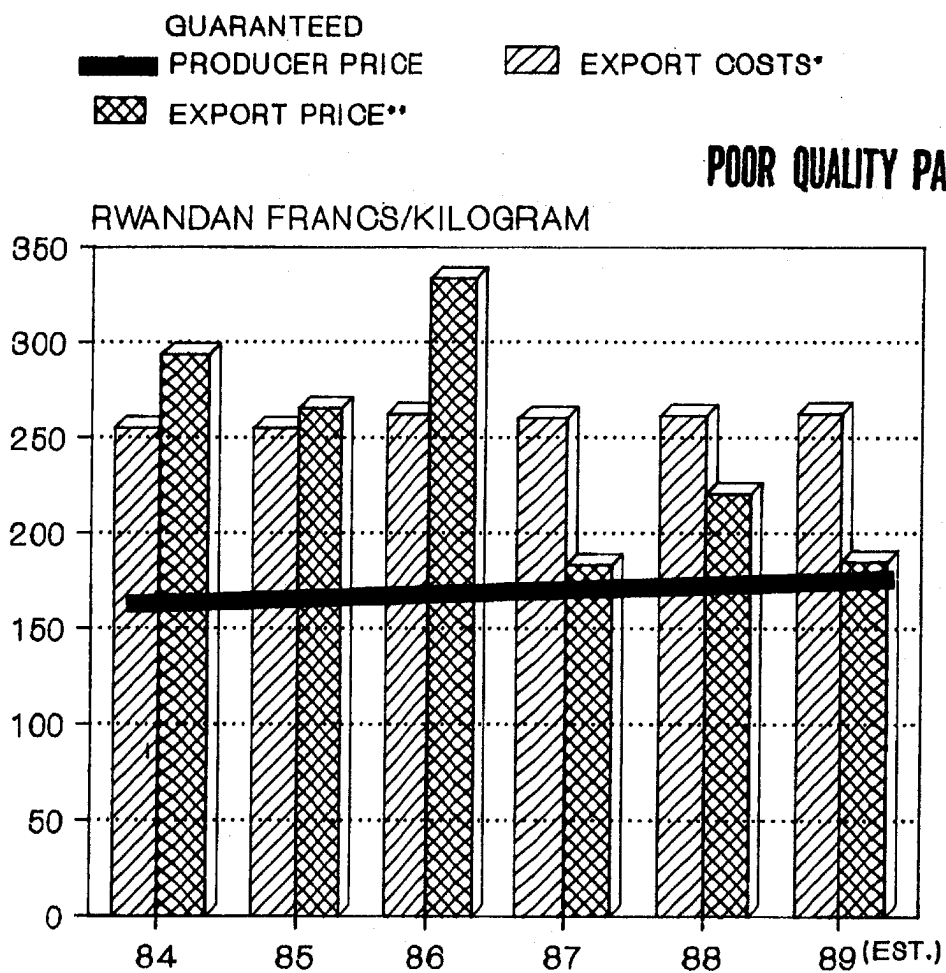
Popular dissatisfaction with regime policies and Habyarimana's leadership is gradually building as a result of the government's handling of the economic and food situations. There also are signs of possible military disaffection. Educated Rwandans have privately criticized the government's industrial strategy for its reliance on expensive capital imports that consume scarce foreign exchange and create few jobs. []

[] The local press has reported increasing public intolerance of officials who benefit financially from investments in government-protected corporations and grant import licenses on the basis of political influence or bribery. Small- and medium-sized businessmen have complained publicly to the Minister of Planning that import restrictions and increased taxes are forcing them to lay off workers or even shut down. []

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RWANDAN COFFEE: PRICES DROP WHILE COSTS REMAIN HIGH



*EXPORT COSTS INCLUDE PRODUCER PRICE,
OTHER COSTS, & TAXES

**EXPORT PRICE IS FOB MOMBASA

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The government's foot-dragging on alleviating food shortages and the generally more pronounced economic hardship in the south, which has a higher proportion of Tutsis, has heightened ethnic tensions. A curfew was briefly enforced last month in the region when unconfirmed rumors of Hutu-Tutsi clashes were running rampant. Independent local journalists have claimed that the northern-dominated leadership, which they portray as unconcerned with food shortages in the south, delayed acknowledging that famine existed. Emergency food distribution has become a political issue. The government prefers to channel foreign-donated food supplies through its political and administrative machinery to areas it has selected as the neediest, which do not always coincide with the areas identified by foreign donors, []

A criminal investigation involving the defense forces over the past year has added to the regime's woes by sparking concern over the military's continued loyalty. The murder of a high-ranking officer and presidential protege remains unsolved despite a six-month investigation and the imprisonment of three Army officers who have not been brought to trial. Col. Laurent Serubuga, the Army's Deputy Chief of Staff and second-in-command after the President, has been under surveillance for several months, but no charges have been brought against him. The government's inability, or unwillingness, to resolve the case has rankled elements within the military, [] who see irresolution on this issue as symptomatic of Habyarimana's indecisiveness. []

Because of perceived mishandling of these and other issues, many Rwandans reportedly are questioning Habyarimana's suitability to continue governing the country. Although public respect remains intact for his past accomplishments, [] a growing consensus among Rwandans that the "well-meaning" President should voluntarily step aside for new, more dynamic leadership. Members of Rwanda's elite privately have criticized his indecisiveness in attacking economic problems, tolerance of corrupt business activities by government officials and family members, and favoritism toward development projects in his home region, []. At the same time, the government's politicization of food

relief and a presidential directive to crack down on independent journalists in an effort to stem criticism of official policies have raised concern among Western diplomats about the regime's continued respect for human rights. []

Future Prospects Dim

Habyarimana, in our view, is not yet willing to risk the political fallout from accepting the IMF-backed structural adjustment program, despite pressure from international creditors and the need for fresh aid. He probably will focus instead on politically less sensitive austerity measures, such as those adopted in January, and count on limited bilateral assistance to squeeze through the current financial crunch. Barring a dramatic and unlikely upswing in world coffee prices, however, Rwanda's deteriorating economy may soon leave the government with little choice but to accept at least a gradual devaluation or a partial reduction of commodity subsidies. []

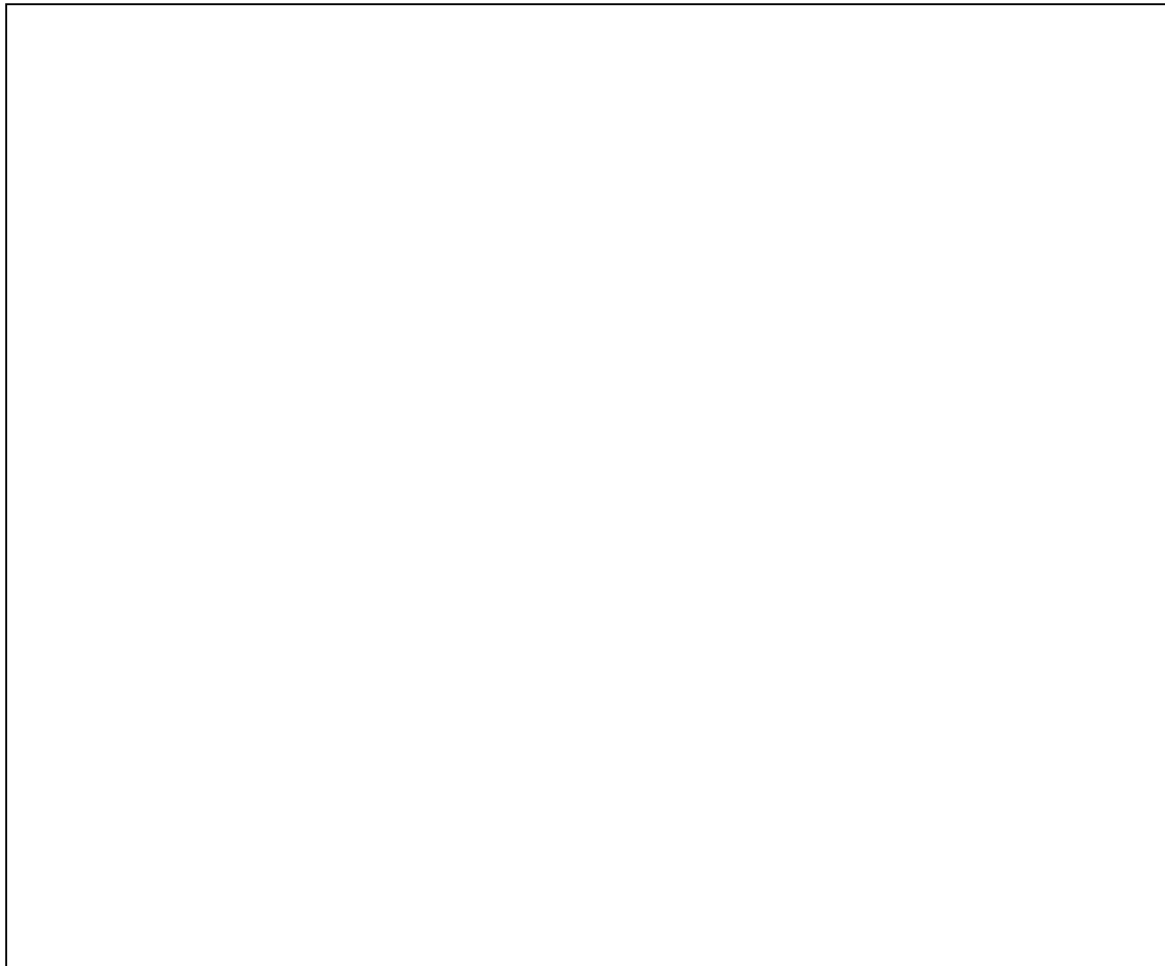
Over the longer term, Rwandan economic prospects are clouded. Structural reforms, such as agricultural diversification, would decrease the country's vulnerability to export price fluctuations, but rapid population growth and land constraints probably will squeeze production of exportable commodities, especially if small farmers shift to food production for subsistence. Rural hardships are likely to be magnified, particularly in the south, thereby increasing ethnic tensions. Meanwhile, failed industrial policy and rising urban unemployment will further inflame public resentment of high-level corruption and benefits enjoyed by government officials. []

Although these challenges will test the President's political skills, his tenure appears relatively secure for now because no alternative leadership has emerged to challenge him. The ruling party's political monopoly precludes an organized opposition and Habyarimana's control of patronage inhibits the potential for rivals to build a following. Centralized decisionmaking within the presidency has weakened the leadership of other political institutions, with the exception of the military. If Habyarimana, []

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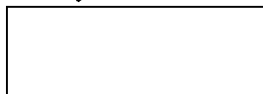
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fails to demonstrate stronger leadership, the military—particularly the better educated and ambitious mid- or junior level officers—may be tempted to move against him in what probably would be billed as a prorreform, anticorruption coup. A

successor regime led by such elements would almost certainly continue to look to the West for assistance.



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